

CHECKLIST

Best Practice Considerations for Selecting a PEO

Professional Employer Organizations (PEOs) provide services to more than 200,000 small and mid-sized businesses. PEOs are becoming increasingly popular in the race to attract and retain employees because of their ability to help small and mid-sized employers compete with benefits offerings only large businesses could afford to provide. With approximately 523 PEOs in the United States, making a careful decision about which PEO to enroll in is crucial for businesses. Below are the best practice considerations every organization should consider when selecting a PEO.¹

1. Assess your workplace to determine your human capital needs.

The following areas should be assessed:

- Payroll
- Recruiting applicant tracking
- Human Resources
- Training
- Employee relations
- Risk management needs

2. Conduct a self-inventory.

Organizations need to honestly evaluate what their needs and expectations are to ensure the PEO can meet your organization where it is. Key considerations prior to selecting a PEO should be:

- Is your organization multi-state?
- What are your industry-specific or organizational needs?
- Have you met the service team and their leadership?
- Have you demoed the technology?

3. Is the PEO a NAPEO member?

NAPEO is the national trade association of the PEO industry. Use their [Find a PEO search tool](#) to find a member doing business in your state.

4. Is the PEO IRS certified?

IRS certification confirms the certified PEO (CPEO) can pay federal employment taxes under its EIN and protects customers by requiring the CPEO to assume sole liability for wages paid to worksite employees. You can see a list of CPEOs [here](#).

5. Ask for current and past client professional references.

6. Make sure that the company you are considering meets all state requirements including licensing and bonding requirements.



7. Verify independent auditing of financial statements, risk management practices and other operational practices.

- Does a CPA audit the PEO's financial statements?
- Have the PEO's risk management practices been independently certified by the [Certification Institute](#)?
- Have the PEO's operational, financial and ethical practices been independently accredited by [ESAC](#)?

8. Investigate the company's administrative and management expertise and competence.

- Does the PEO corporate staffing allocation support what the PEO promises in its marketed services?
- How many clients does the service team manage?
- What is the average turnaround for problem resolution? Will they provide an SLA?
- Does their senior staff have professional training and designations?

9. Understand the PEO's service model.

You want to ensure that if problems arise, the PEO's service team can quickly and accurately resolve them.

- Will you work with one account manager who can navigate various PEO services?
- Will you need to speak to someone different for each PEO service?
- Which style suits your needs best?

10. Understand how the PEO is funded.

Is the PEO fully-insured or partially self-funded? Who is their third-party administrator (TPA) or carrier? Is their TPA or carrier authorized to do business in your state?



11. Understand how the benefits are tailored and determine if they meet your employees' needs.

12. Carve-out status.

Does the PEO allow you to retain or carve out your insurance programs such as health and dental insurance, or workers' compensation? Is this flexibility important or meaningful to you?

13. Review the service agreements carefully.

Are the respective parties' responsibilities and liabilities clearly laid out? What guarantees are provided? What provisions permit you or the PEO to cancel the terms of the contract? When are you able to terminate the agreement? For example, once each year at renewal or at any time with 30- or 60- days' notice?

Make sure you have the right partner to help you select a PEO.

When you're a growing organization, have the right benefits that support your most valuable assets: your employees.

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